

Washington State Economic & Revenue Outlook

Presented to
Economic Development Association of Skagit County

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February 18, 2010
Mt. Vernon, Washington



WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL



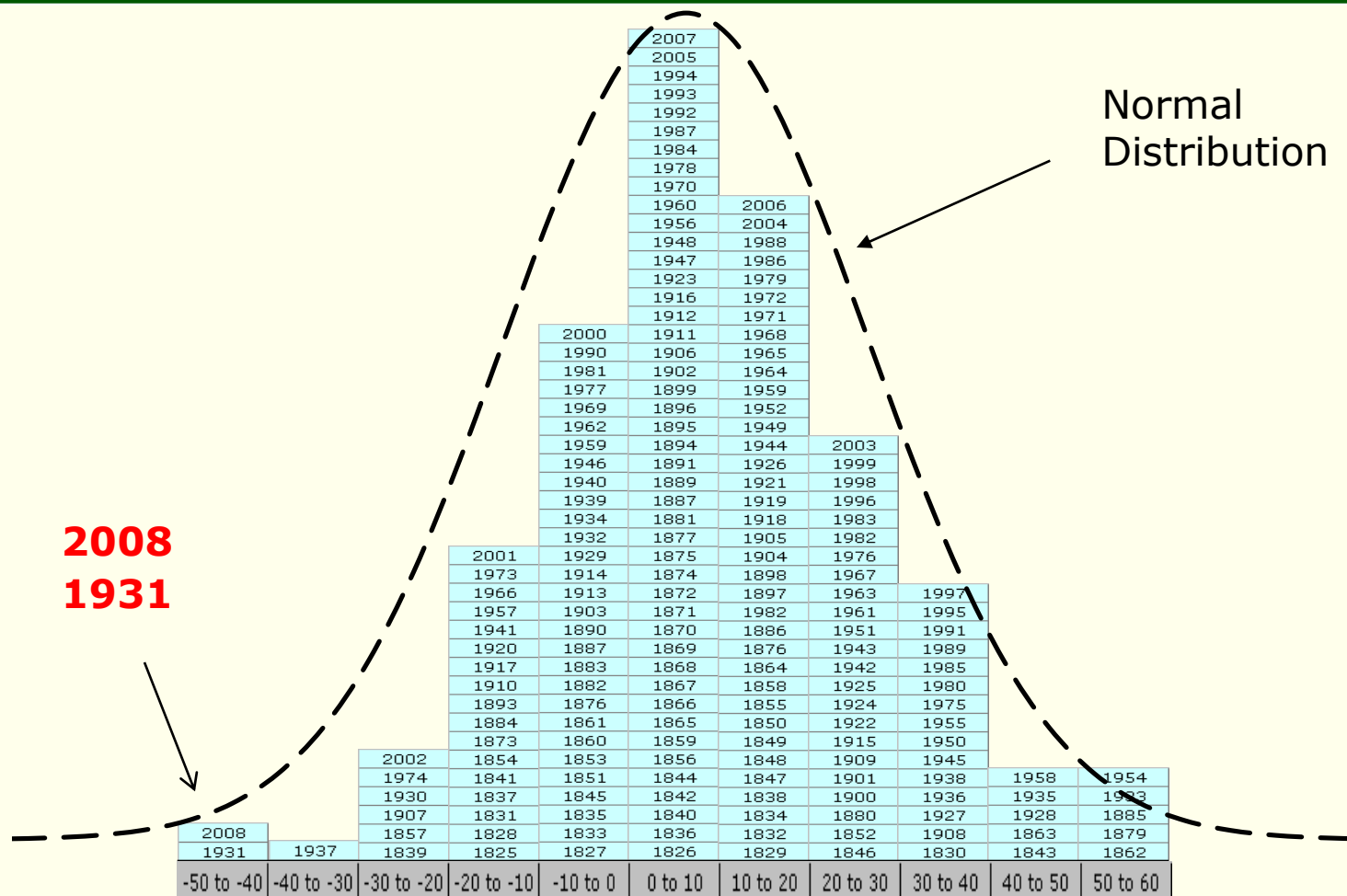
Summary

- We are coming out of the “Great Recession”
 - The economy will gain traction by mid-year
 - The recovery in revenues is underway, but progress will be slow
- The economic recovery faces headwinds
 - Real estate, especially commercial
 - Banking, particularly local and regional banks
- The revenue recovery too faces headwinds
 - Slow job growth
 - Tentative consumer confidence
- Upside
 - Exports
 - Stable aerospace and software publishing



Equity returns in 2008 were a tail event

**U.S. Stock
Market
Total
Returns
1825 - 2008**



Source: AXA

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At this stage in 1982-83, employment had started to recover

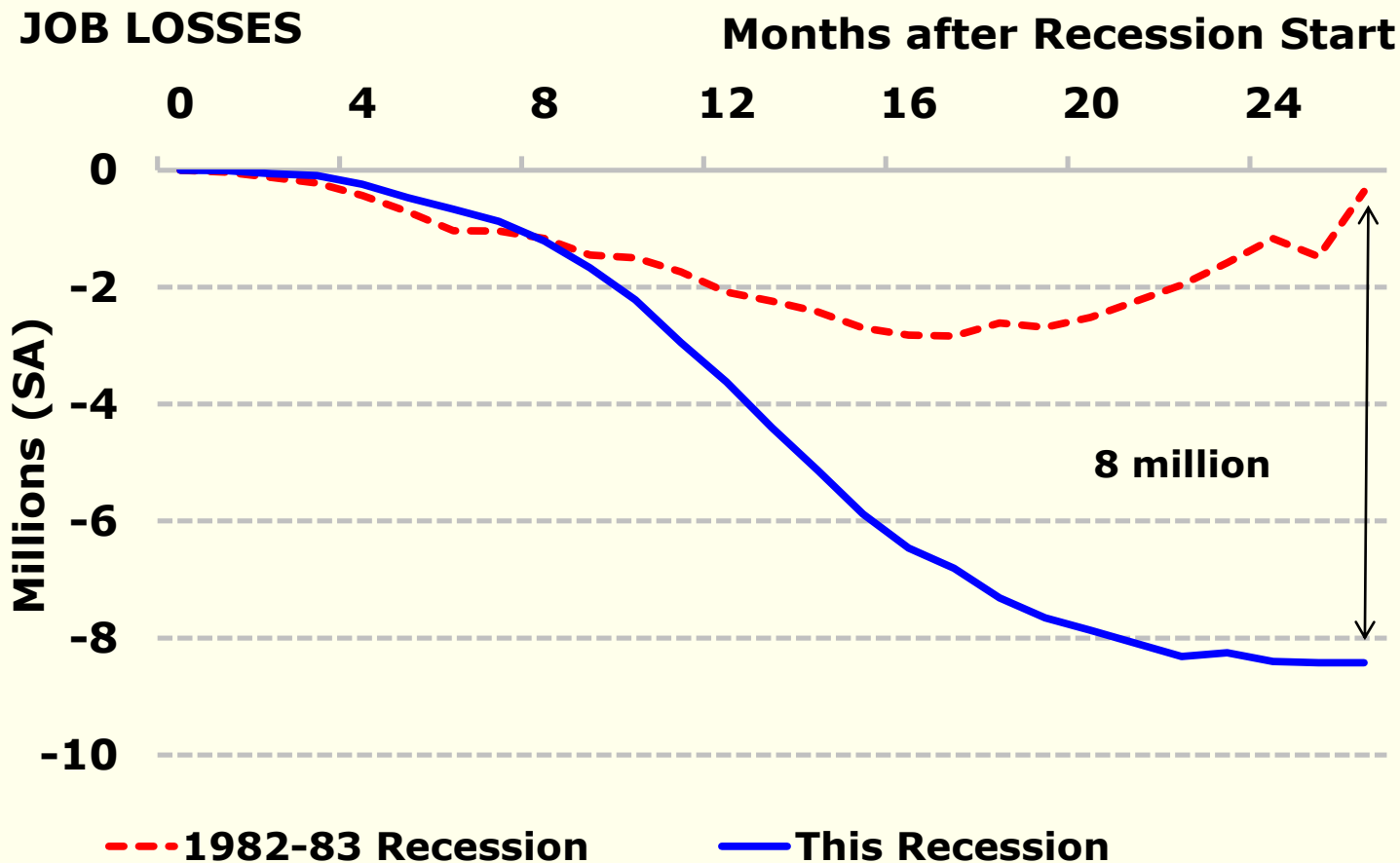
Cumulative
job losses
at 26
months

1982-83:

1.4% of
labor force

This time:

4.7% of
labor force



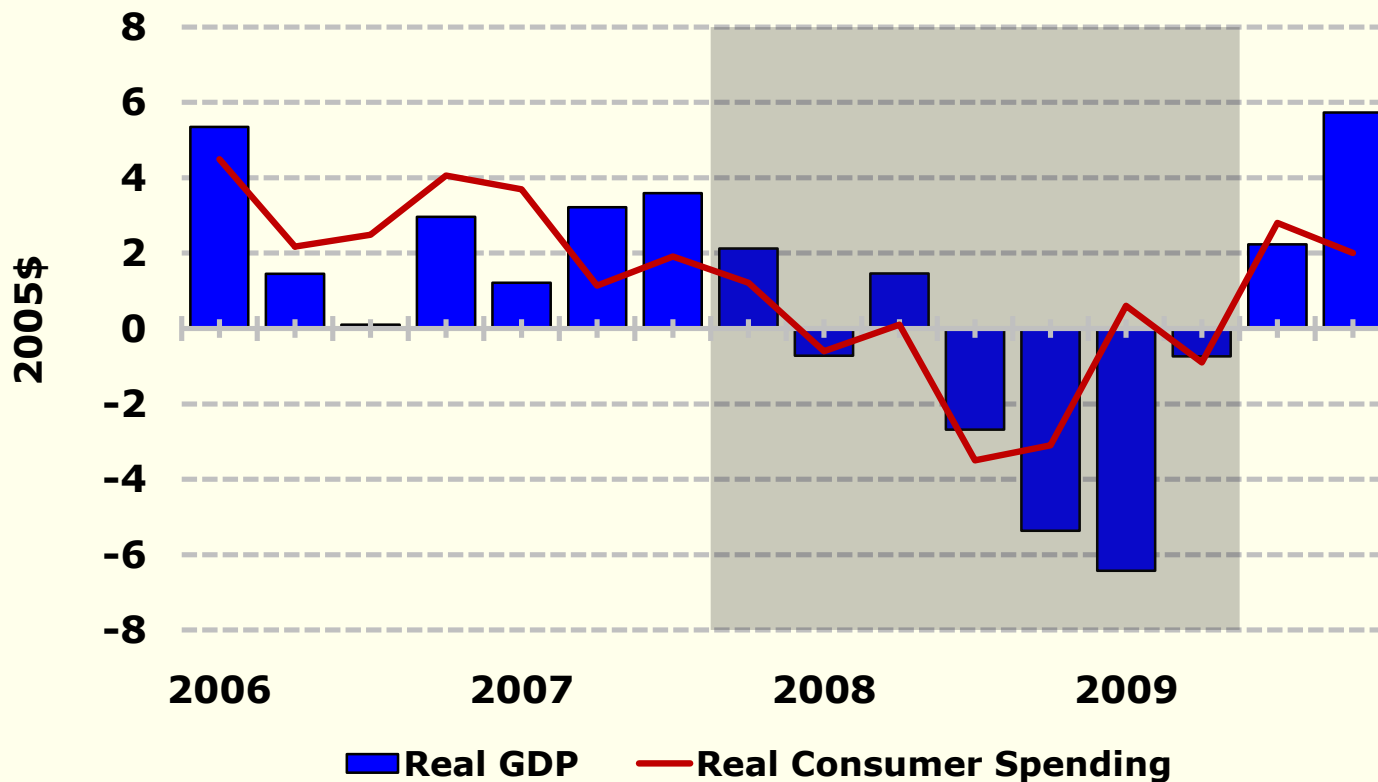
Source: BLS, ERFC; data through January 2009

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GDP returned to growth in Q3

Percent growth, SAAR



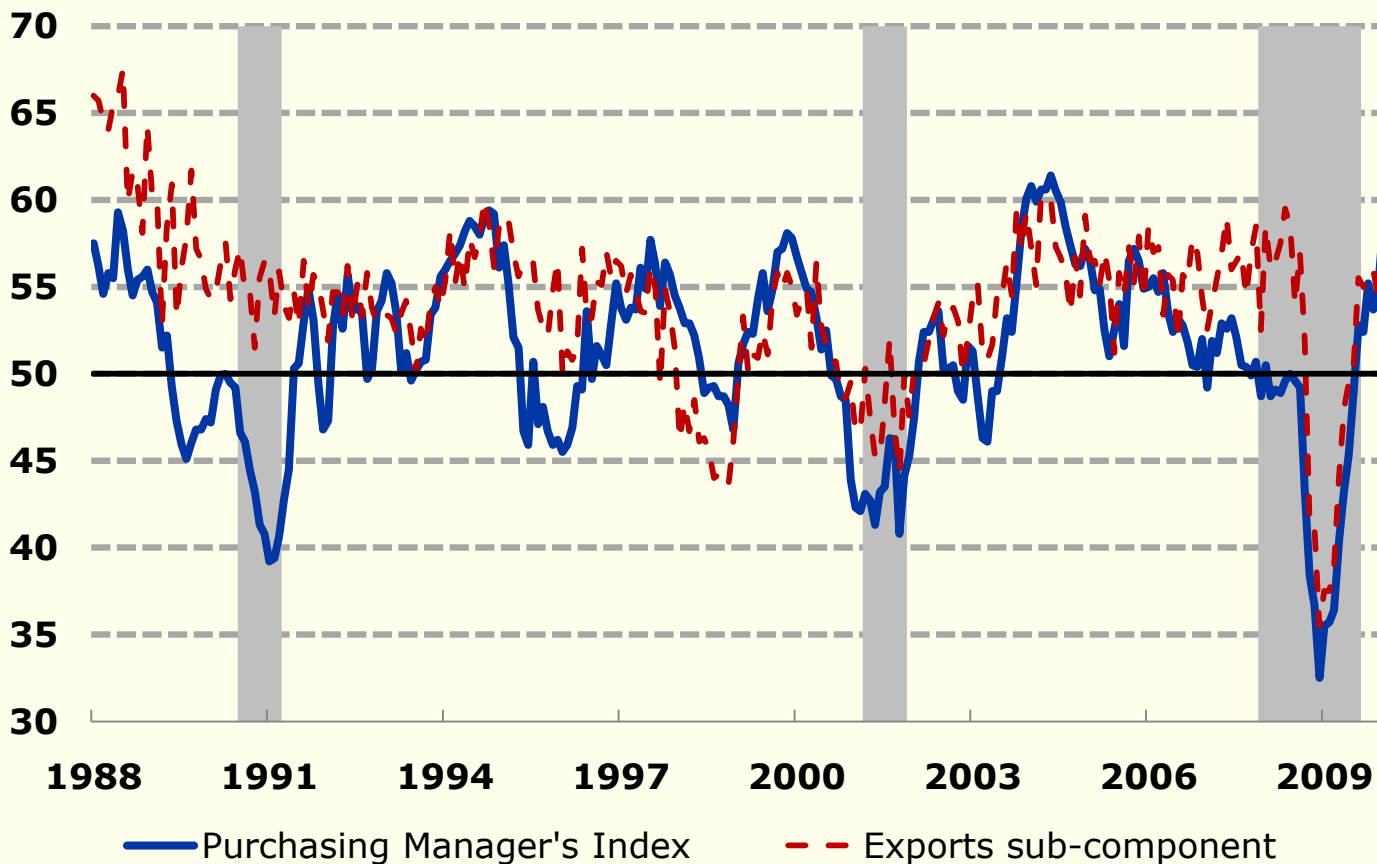
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Source: BEA, data through 2009 Q4



Manufacturing is growing again thanks to exports

An index greater than 50, implies growth



Source: Institute of Supply Management; data through January 2010

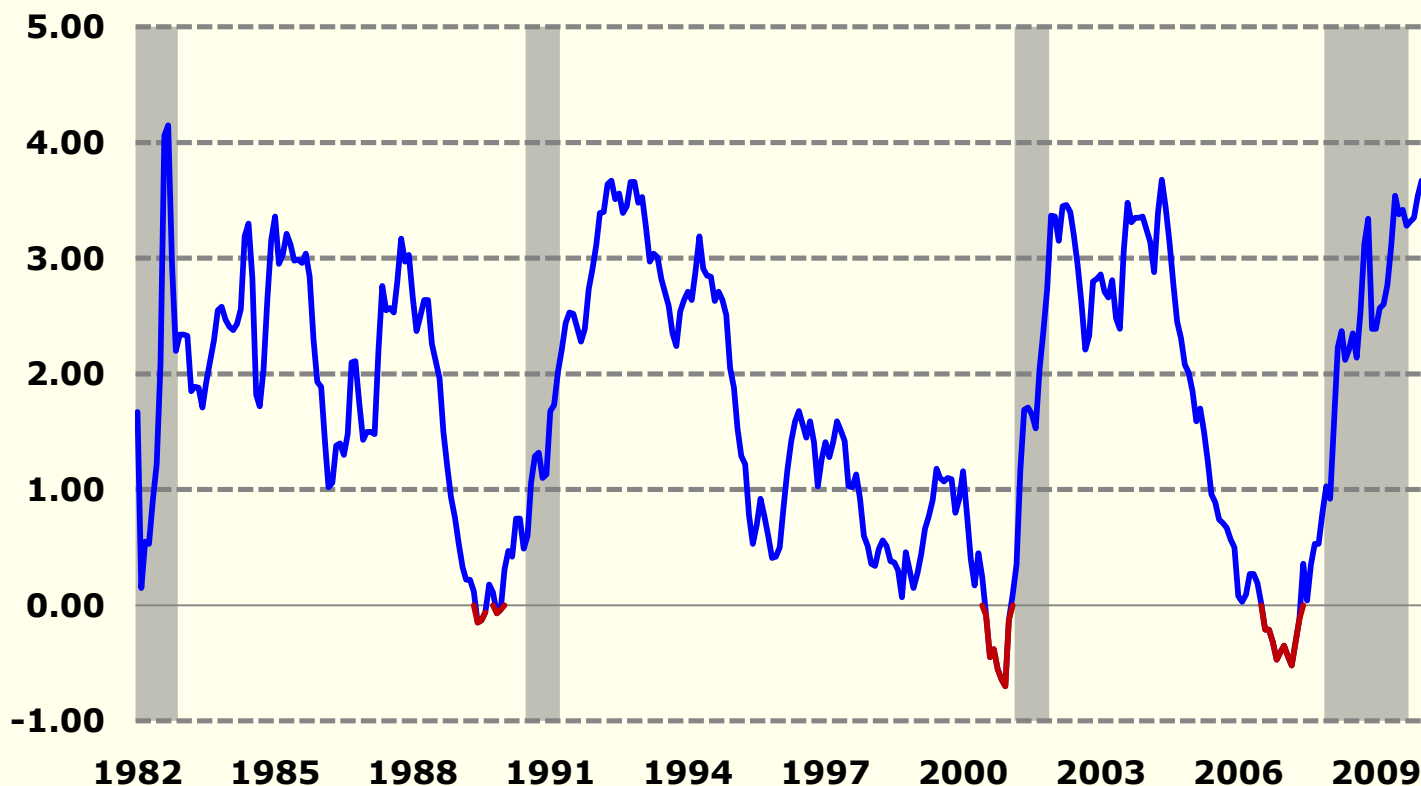
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Increasing yield curve spread points to growth

An inverted yield curve typically precedes a recession while a steepening yield curve signifies a recovery

Yield Curve Spread 10-Year minus 3-Month U.S. Treasuries



Source: Federal Reserve Board, ERFC; data through January 2010

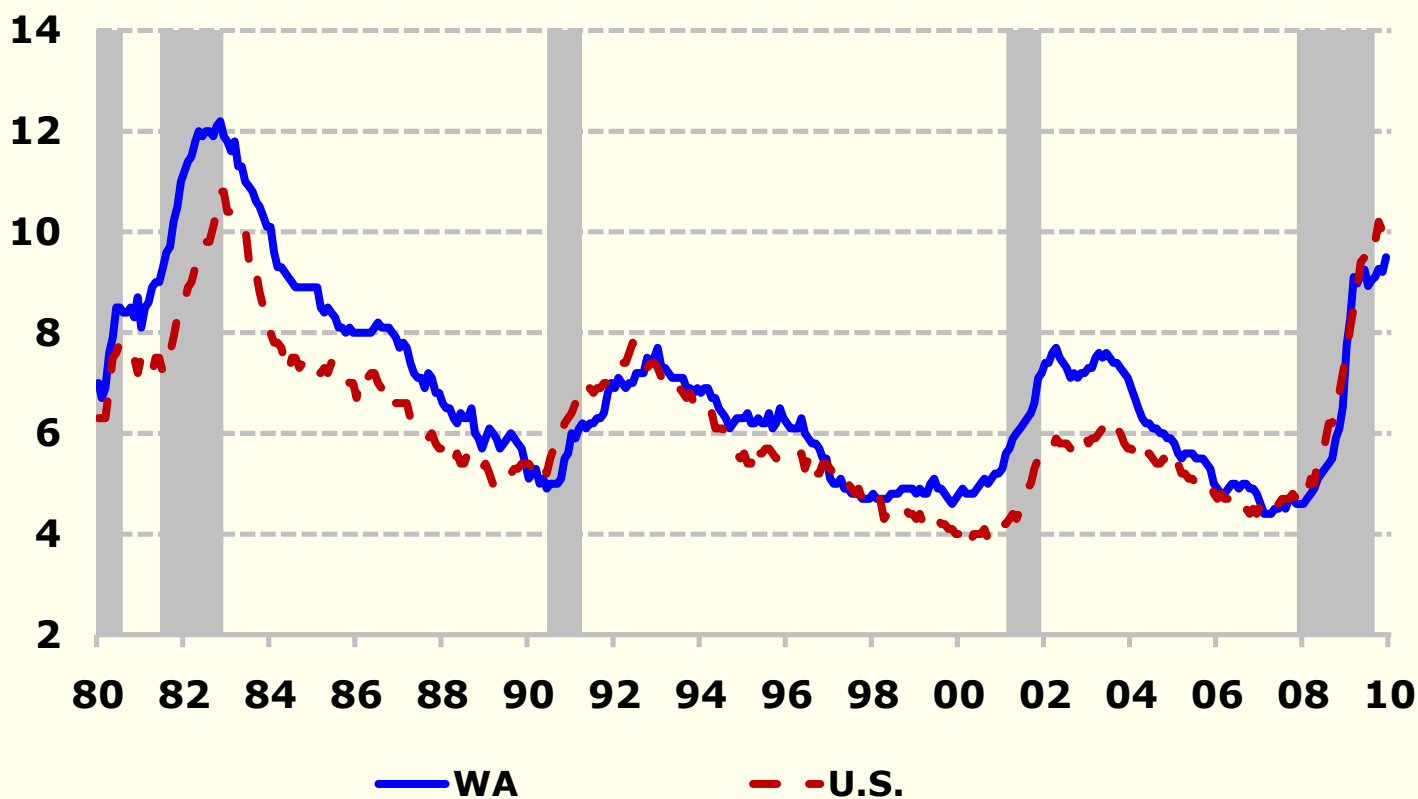
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Unemployment is still high

It is normal for this rate to continue to rise even after the economy is in recovery

Unemployment Rate, Percent, SA



Source: WA ESD, BLS; data through January 2010

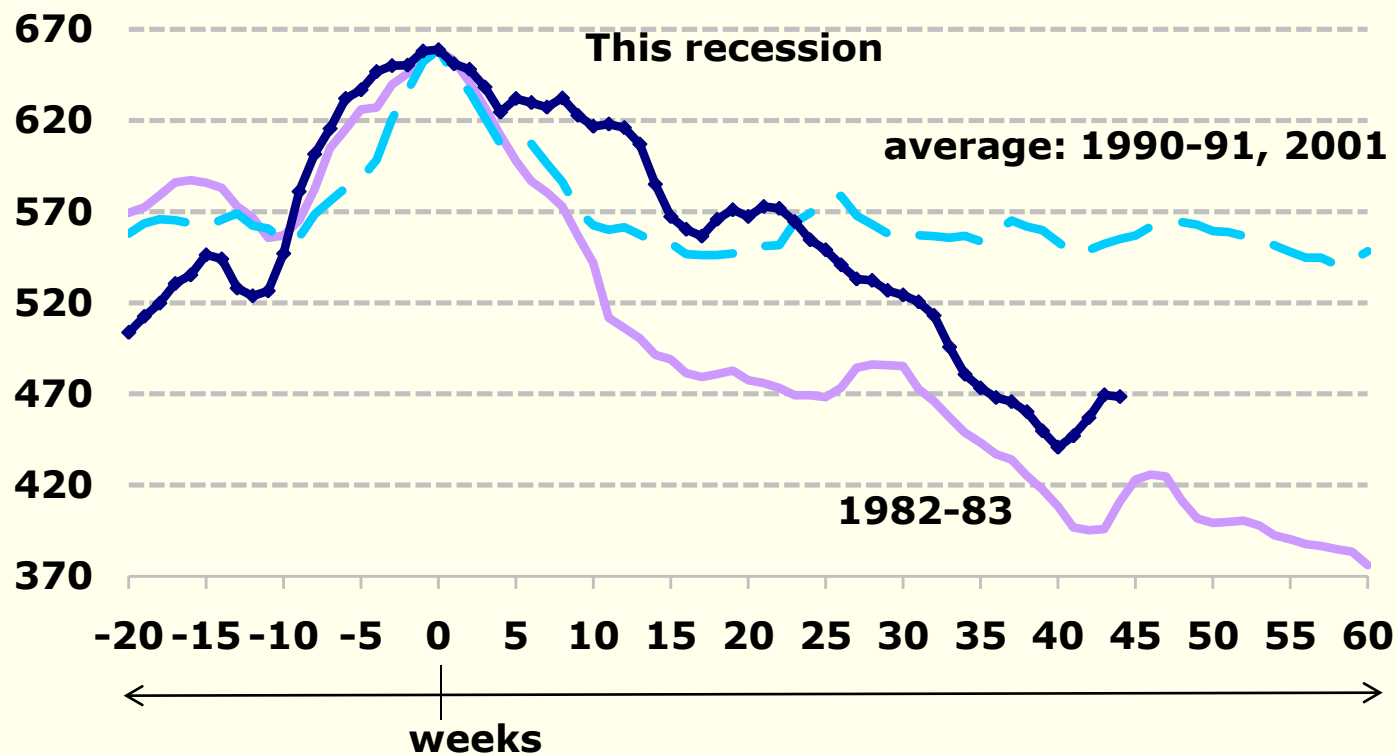
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The recovery in employment has been slow, but is poised to improve

U.S. Initial Unemployment Claims

Thousands, 4-week MA



Source: U.S. Department of Labor, ERFC; data through Jan 30, 2010

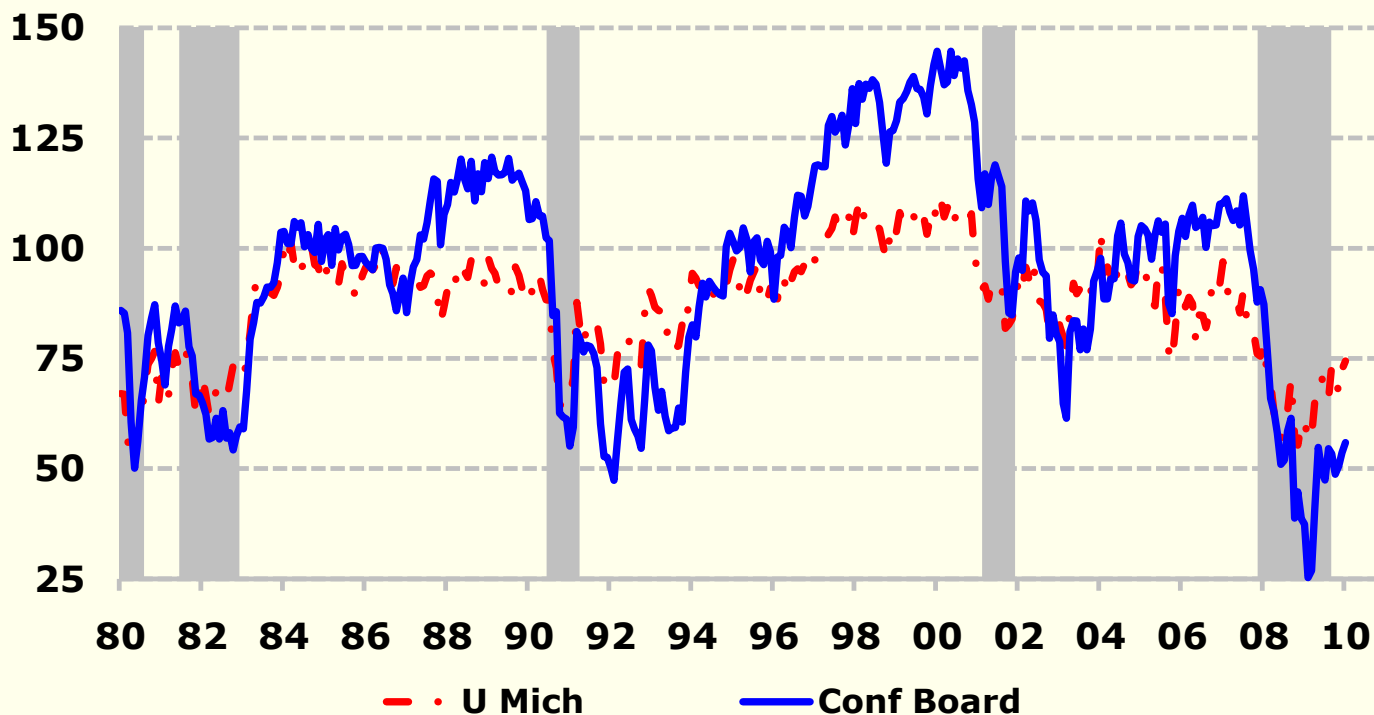


Consumer confidence is improving, but tentatively

Index

Mich: 1966Q1 = 100, SA

Conf Board: 1985 = 100, SA



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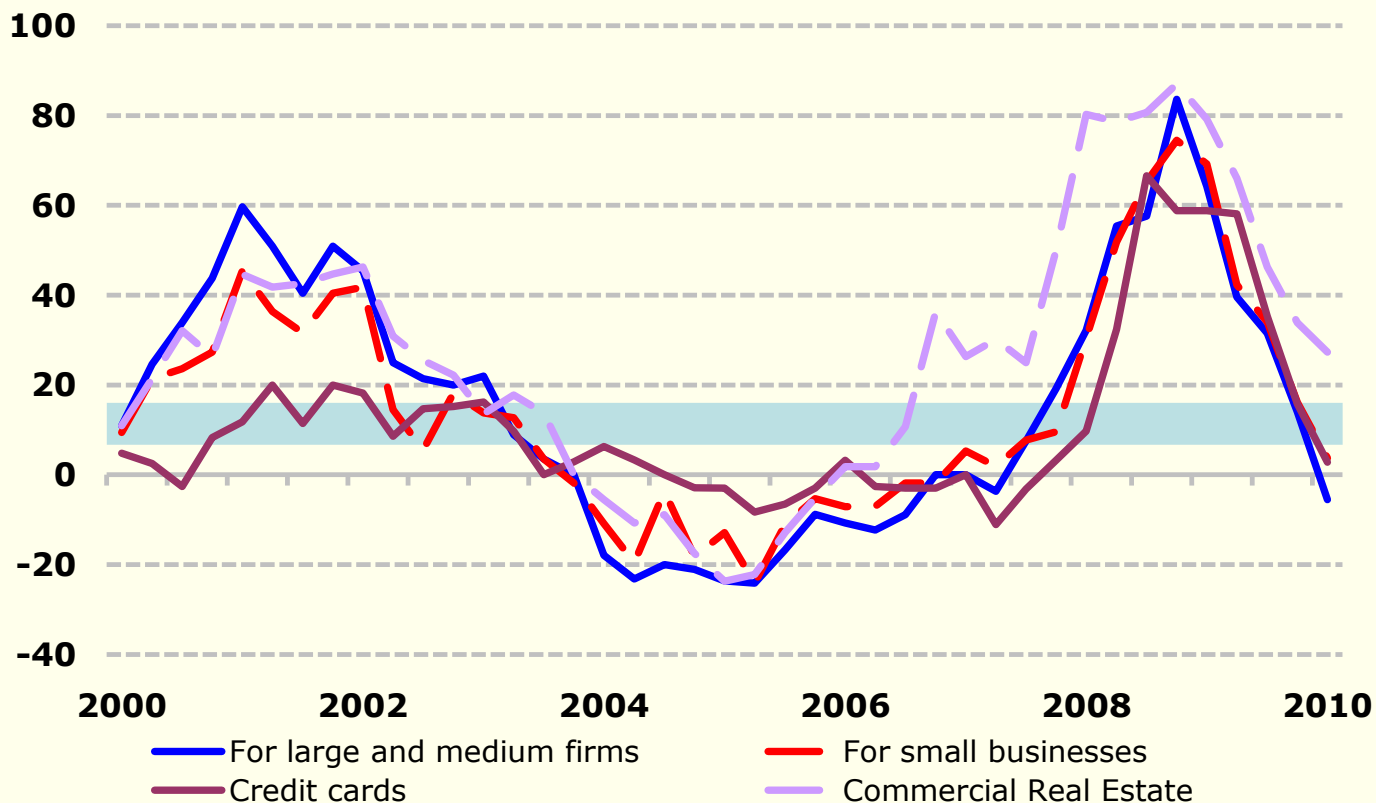
Source: University of Michigan; Conference Board, data through January 2010, preliminary



Bank lending appears to be easing, but not for commercial real estate

Survey includes 60 large domestic banks and 24 U.S. branches of foreign banks

Net Tightening minus Easing Percent



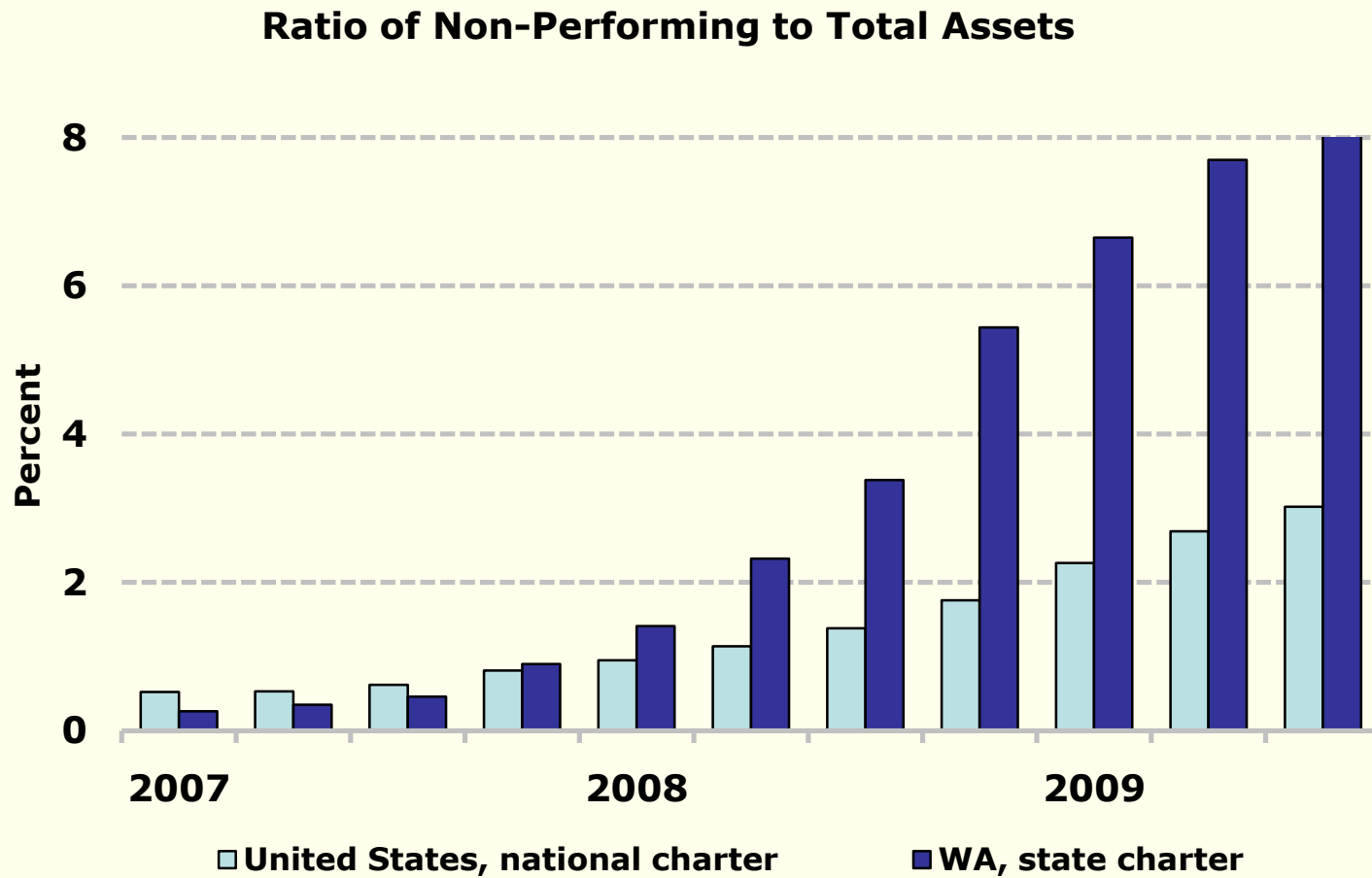
Source: Federal Reserve Board, Senior Loan Officers Quarterly Survey; data through January 2010 survey

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Asset quality of regional banks is deteriorating because of over exposure to commercial real estate

This is generally true for state chartered banks in other states as well

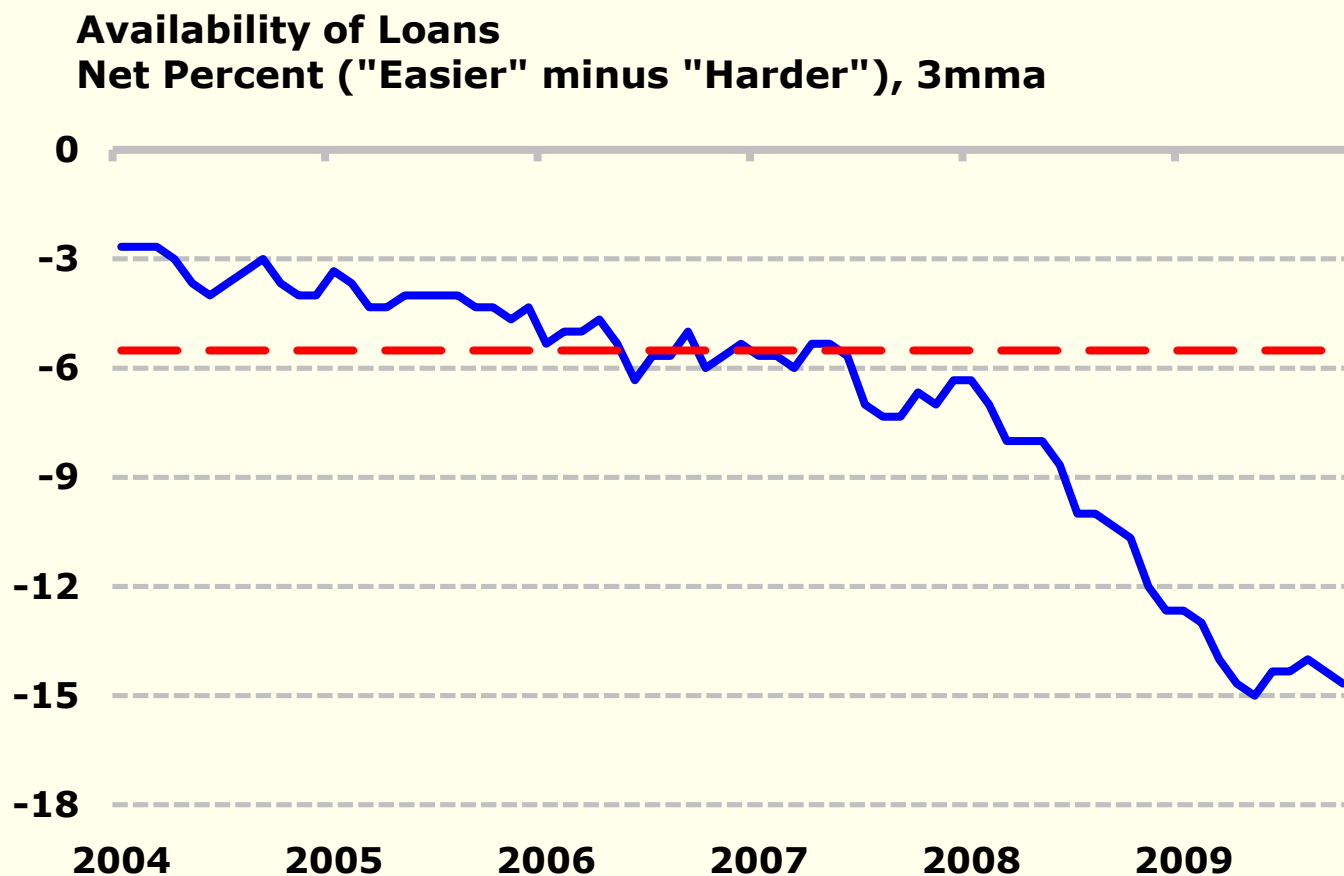


Source: FDIC, data through 2009 Q3

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Credit conditions remain tight for small business...

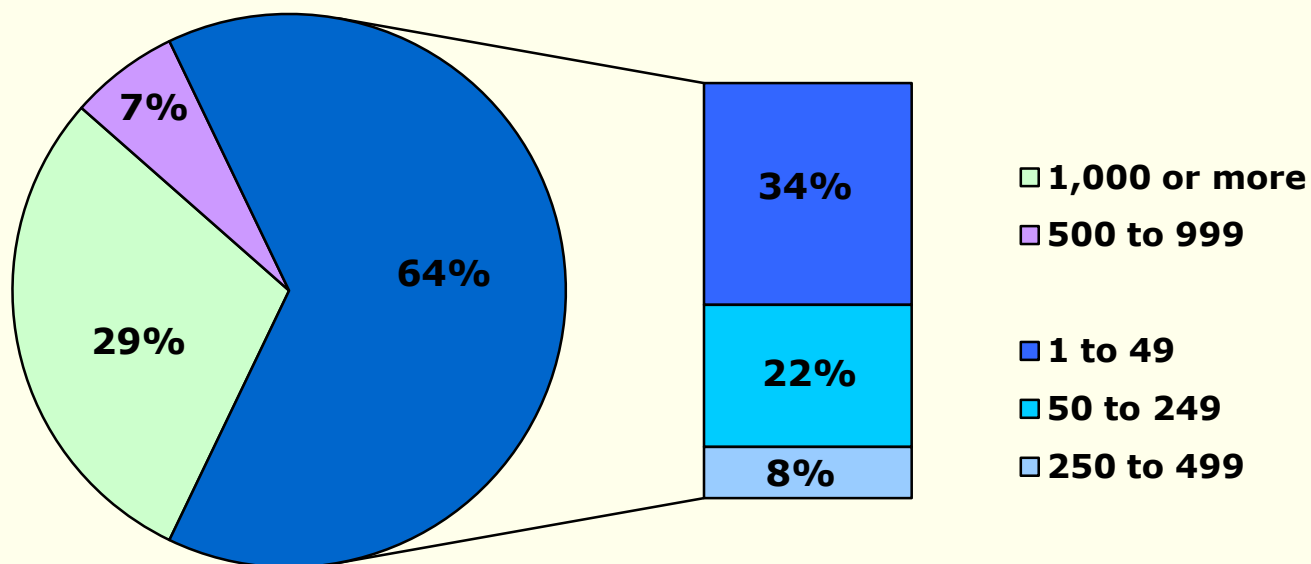


Source: National Federation of Independent Business; data through December 2009



... who create most of the jobs

Since 1992, 64% of the net change in employment has occurred in small businesses

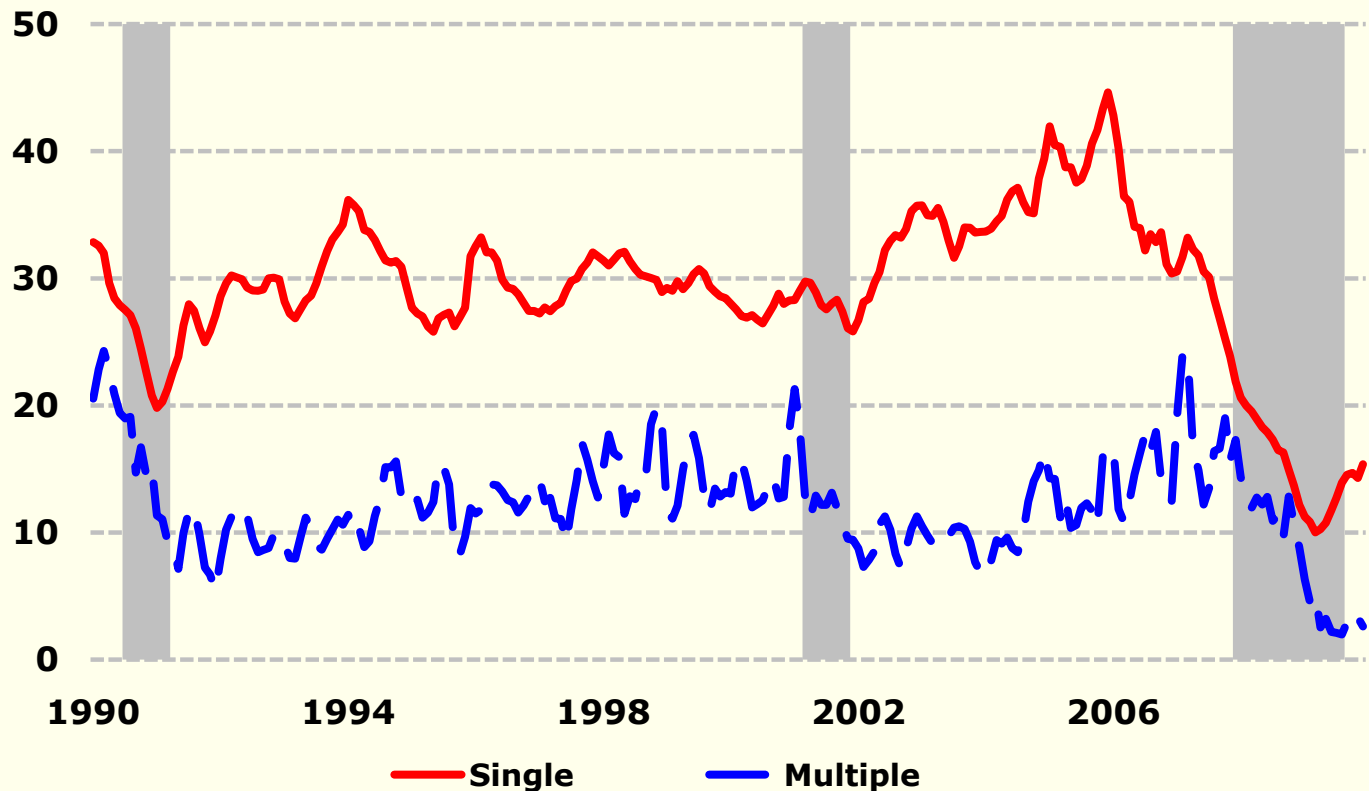


Source: BLS, data from 1992 Q3 to 2009 Q1



WA single family building permits are doing better than multi-family

Thousands, SA, 3MMA



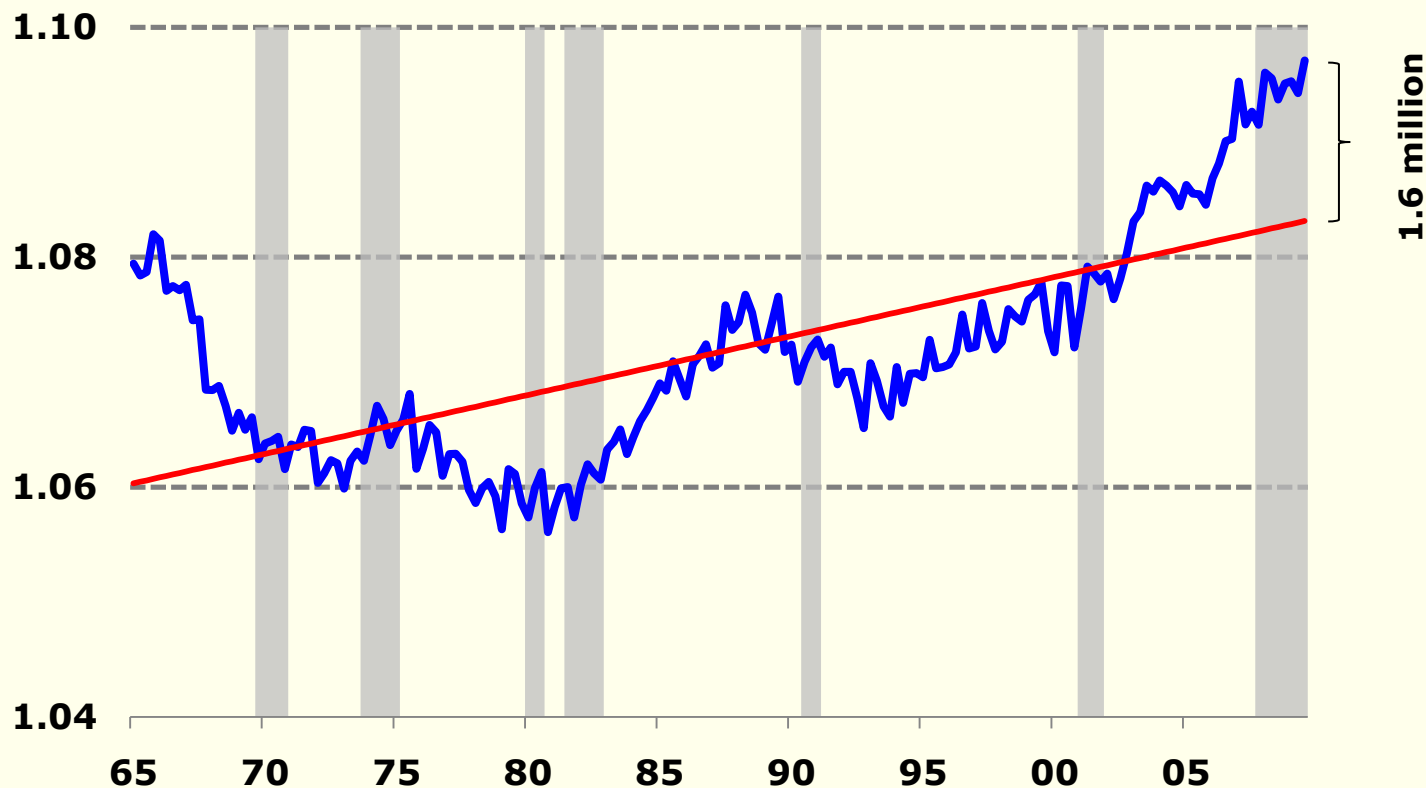
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Source: U.S. Census Bureau; data through December 2009



National housing inventory remains well above trend

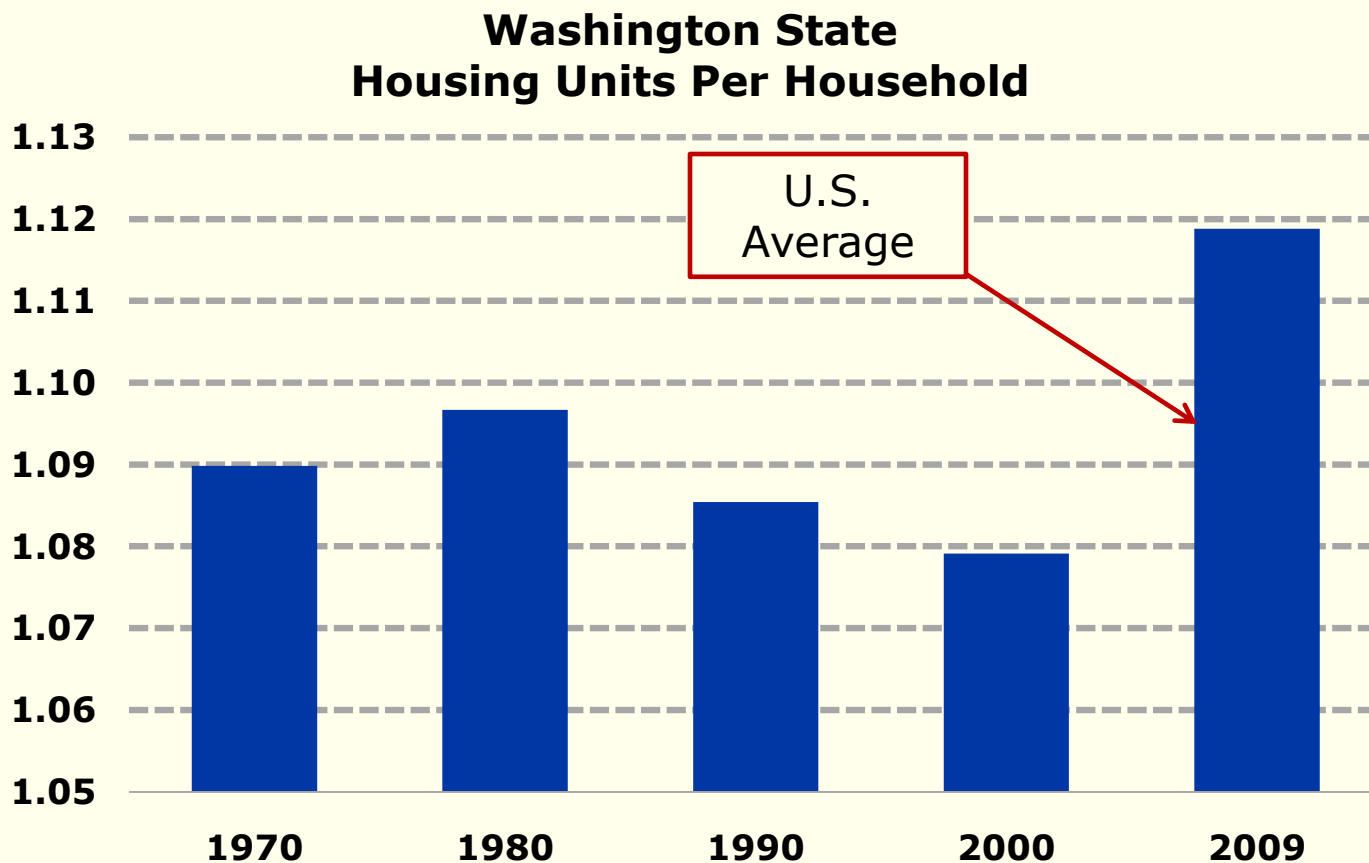
Housing Units per Household



Source: U.S. Census Bureau, ERFC; data through 2009 Q3



WA housing units per household is higher than the nation

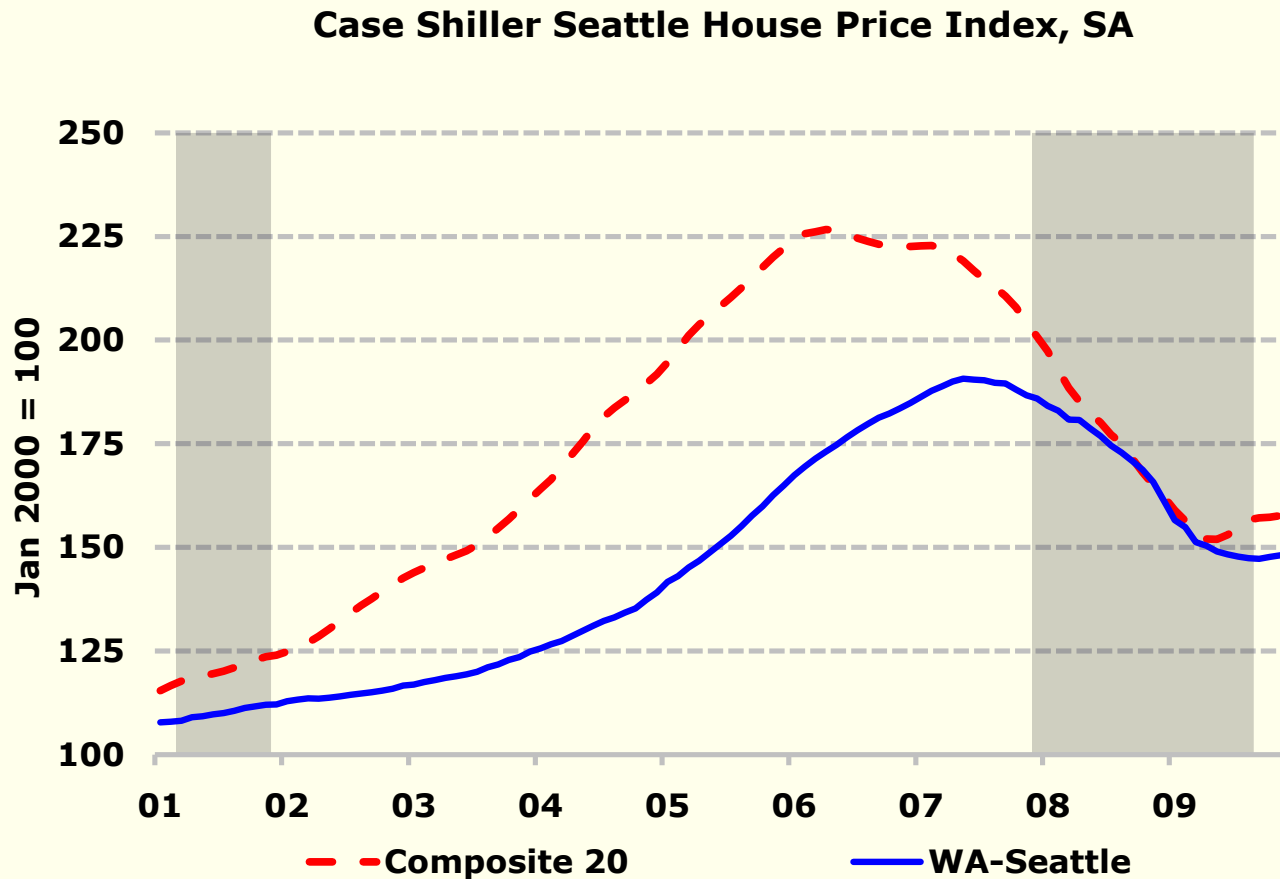


Source: U.S. Census Bureau, OFM; data through December, 2009



Home prices in Seattle appear to be leveling off, but lag the nation in the turnaround

Seattle Home Prices

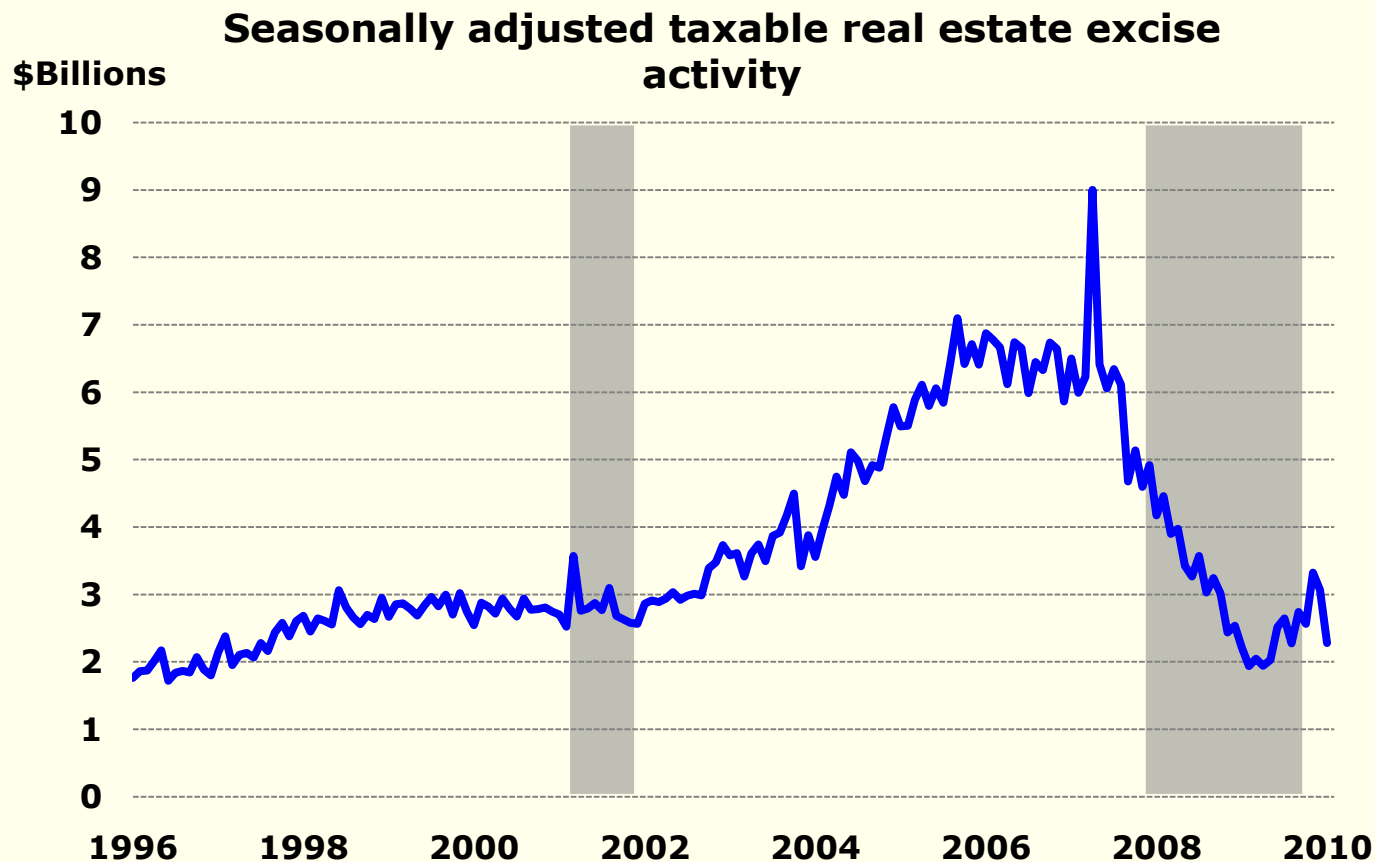


Source: S&P/Case-Shiller; data through November 2009

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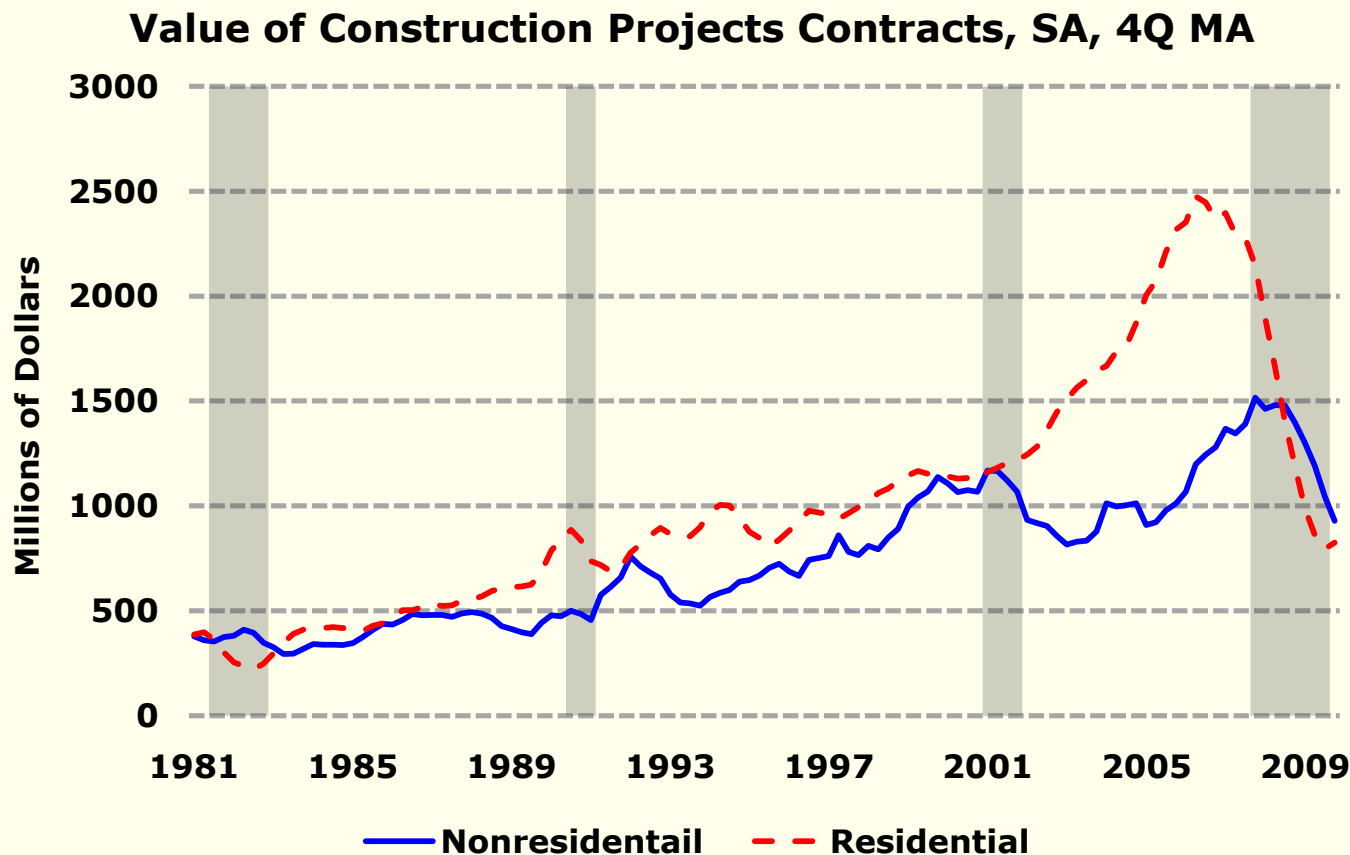
REET collections fell after first round tax credits expired



Source: ERFC; Monthly data through January 2010



Non-residential construction lagged residential on the way down, and has yet to find bottom

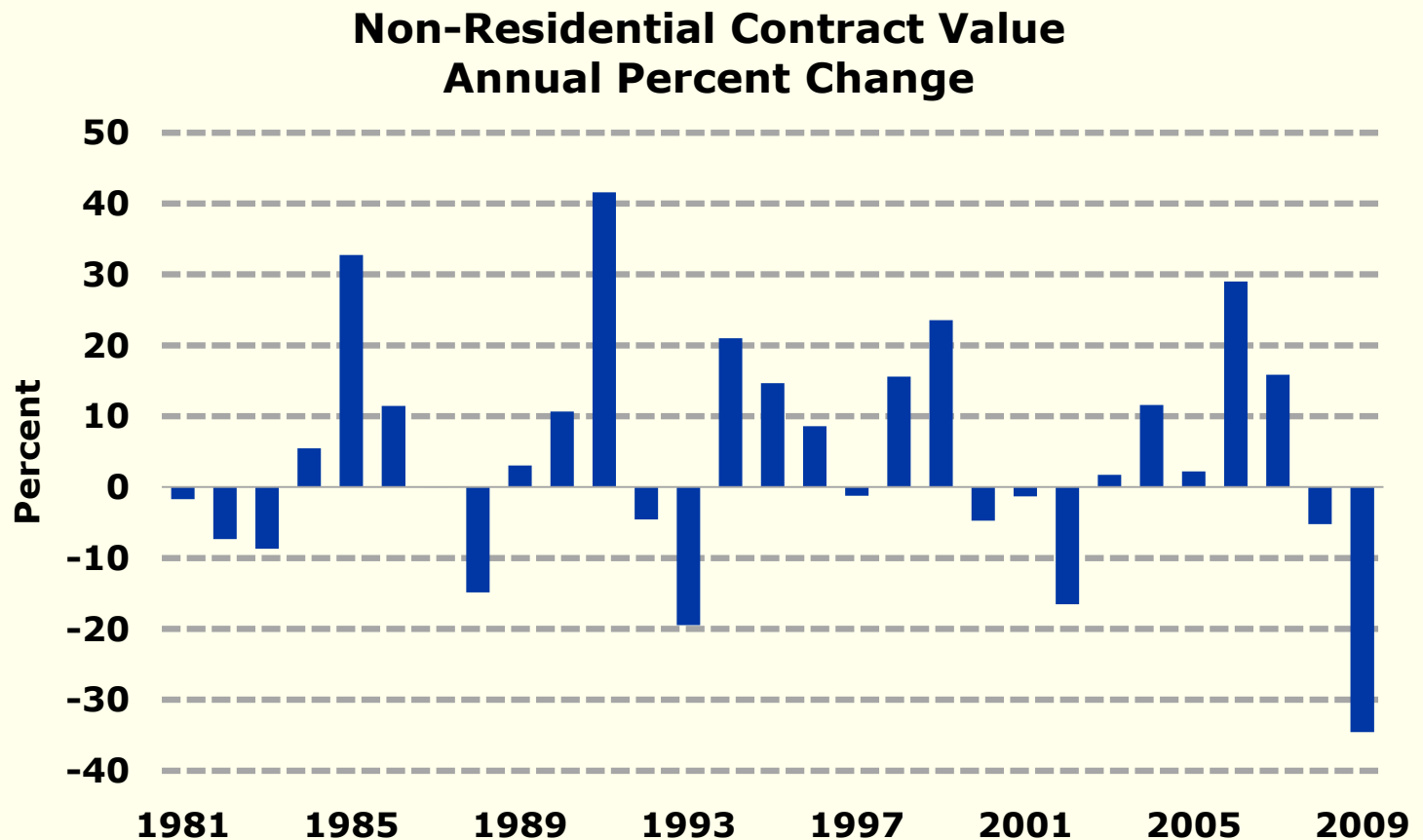


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Source: McGraw-Hill Construction, ERFC; data through 2009 Q4



This is the worst downturn in non-residential construction in 30 years



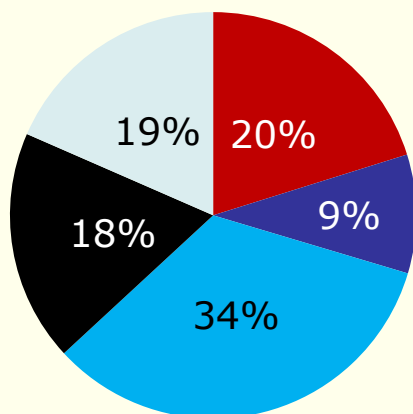
Source: McGraw-Hill Construction, data through December, 2009



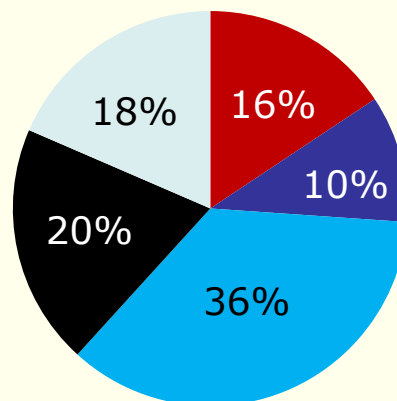
The share of construction in the Retail Sales tax base has shrunk

USD Millions

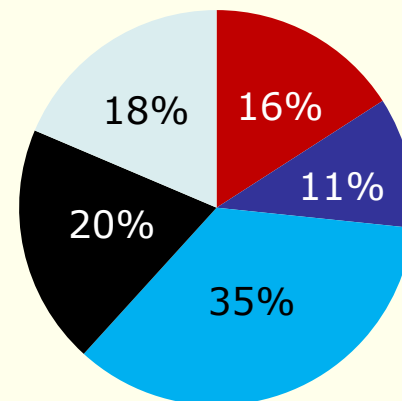
07-09 Biennium



09-11 Biennium



11-13 Biennium



■ Construction

■ Retail Trade Excluding Autos

■ Other

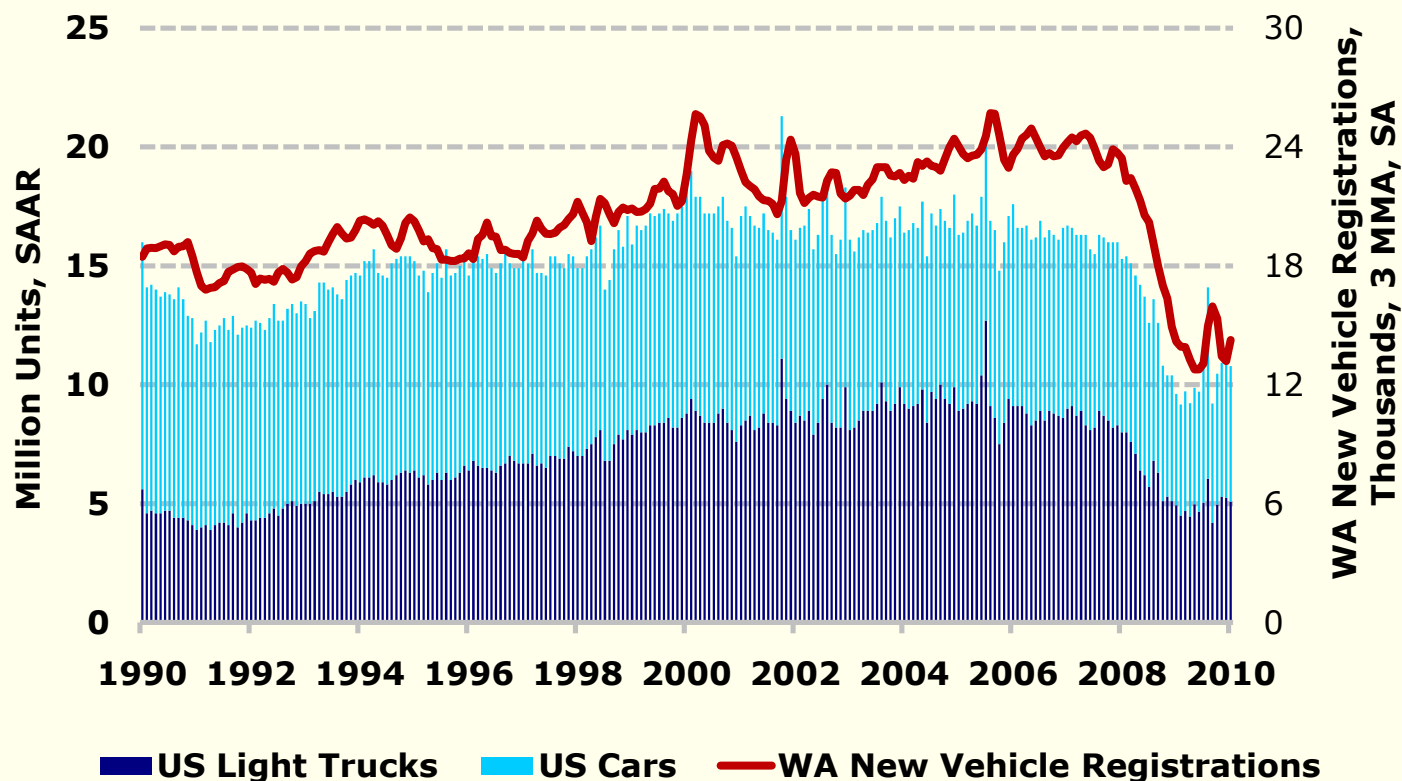
■ Motor Vehicles and Parts

■ Services



Automotive sales have stabilized nationally and in the state

National car sales were 1.2 million units (ann.) higher in January 2010 than in January 2009



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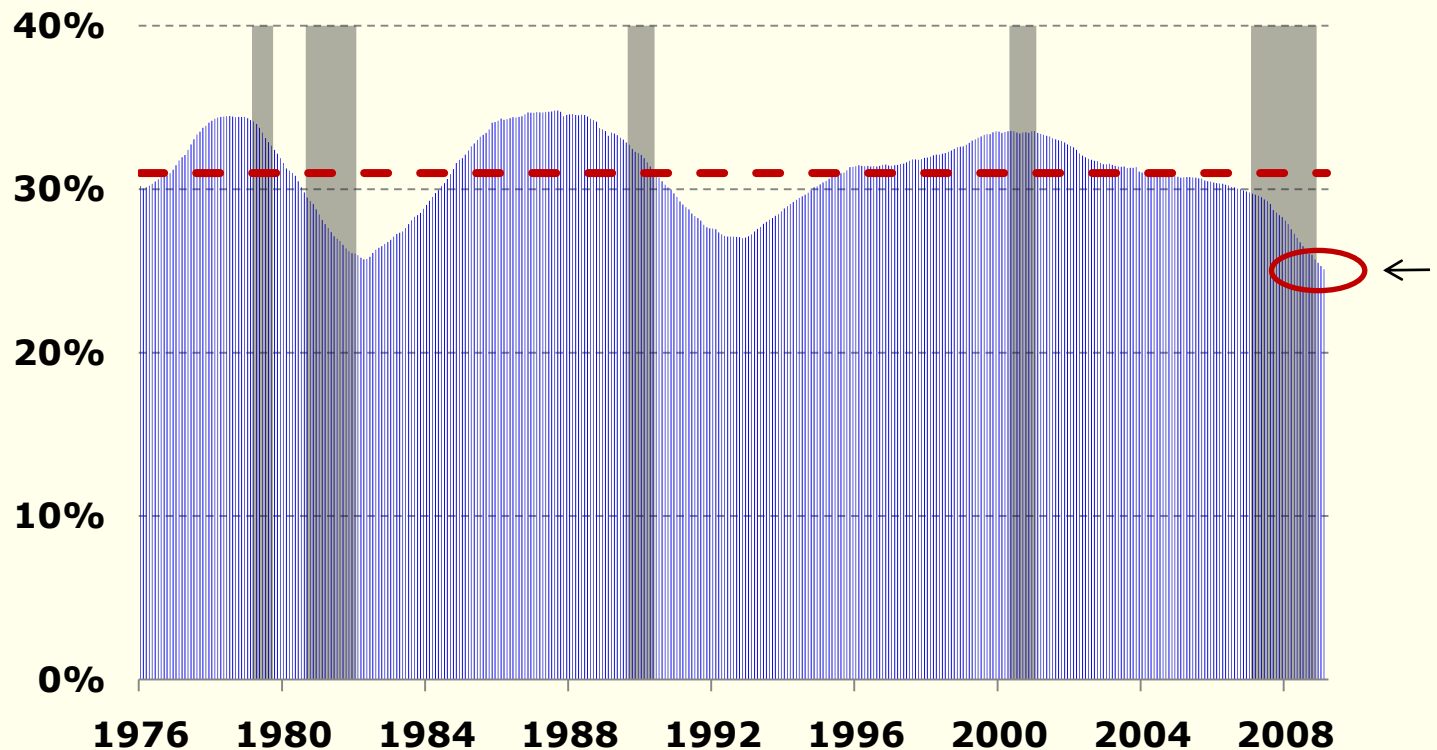
Source: Autodata Corporation, WA DOL; data through January 2010



Relative age of the car fleet indicates imminent turnaround in car sales

The percent of "old" cars on the road is at a historic high

U.S. LMV Sales: Ratio of 36/120 Months



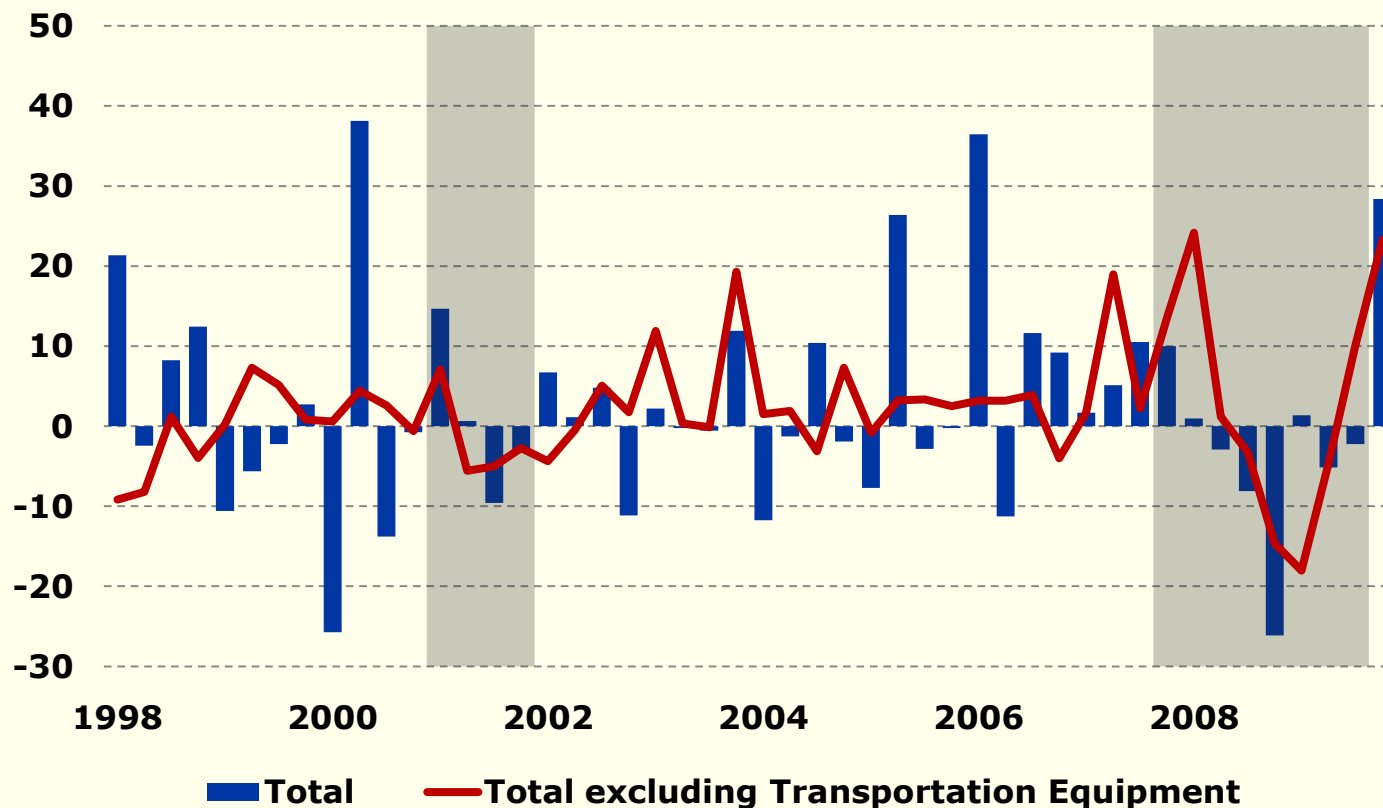
Source: Autodata Corporation, ERFC; data through January 2010



Exports will help the state recover faster than the nation

Exports excluding transport equipment were up 23% in Q4

Exports, SA
Percent Change, quarter ago

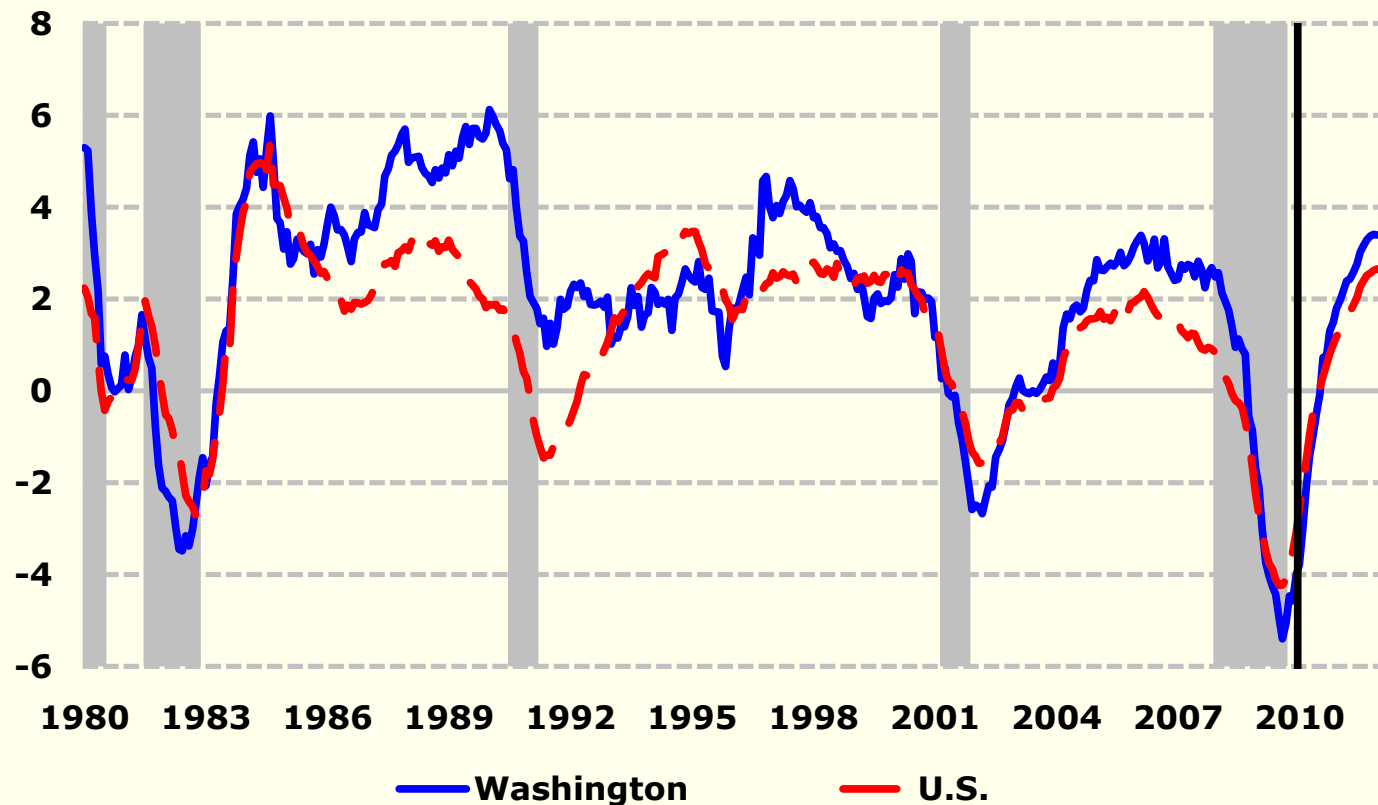


Source: Wisner Trade Data; through 2009 Q4



WA employment lagged the nation in the downturn and will recover a little stronger than the nation

Percent change, year ago

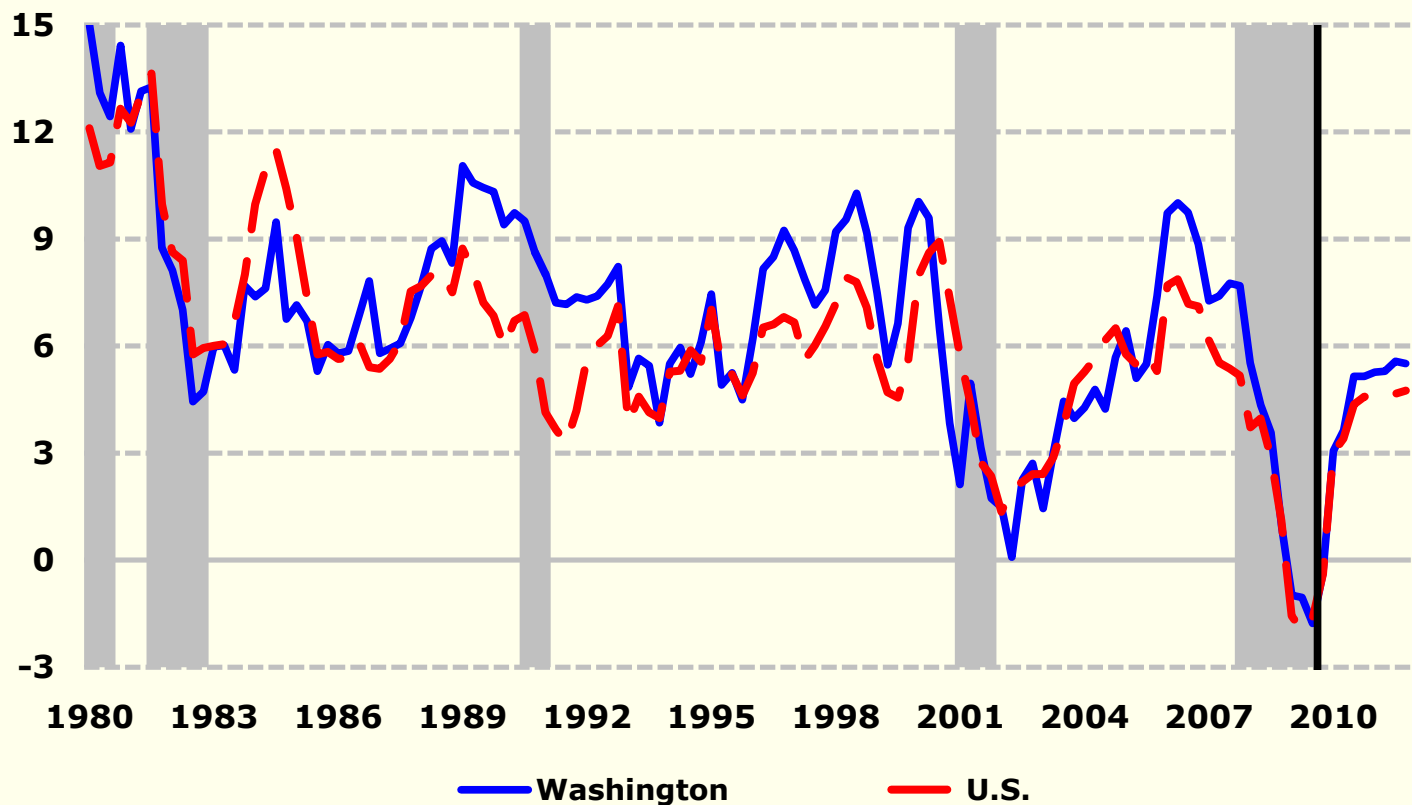


Source: ERFC November 2009 forecast; actual through December 2009



The recovery in WA personal income growth is expected to be better than the nation's

Percent change, year ago

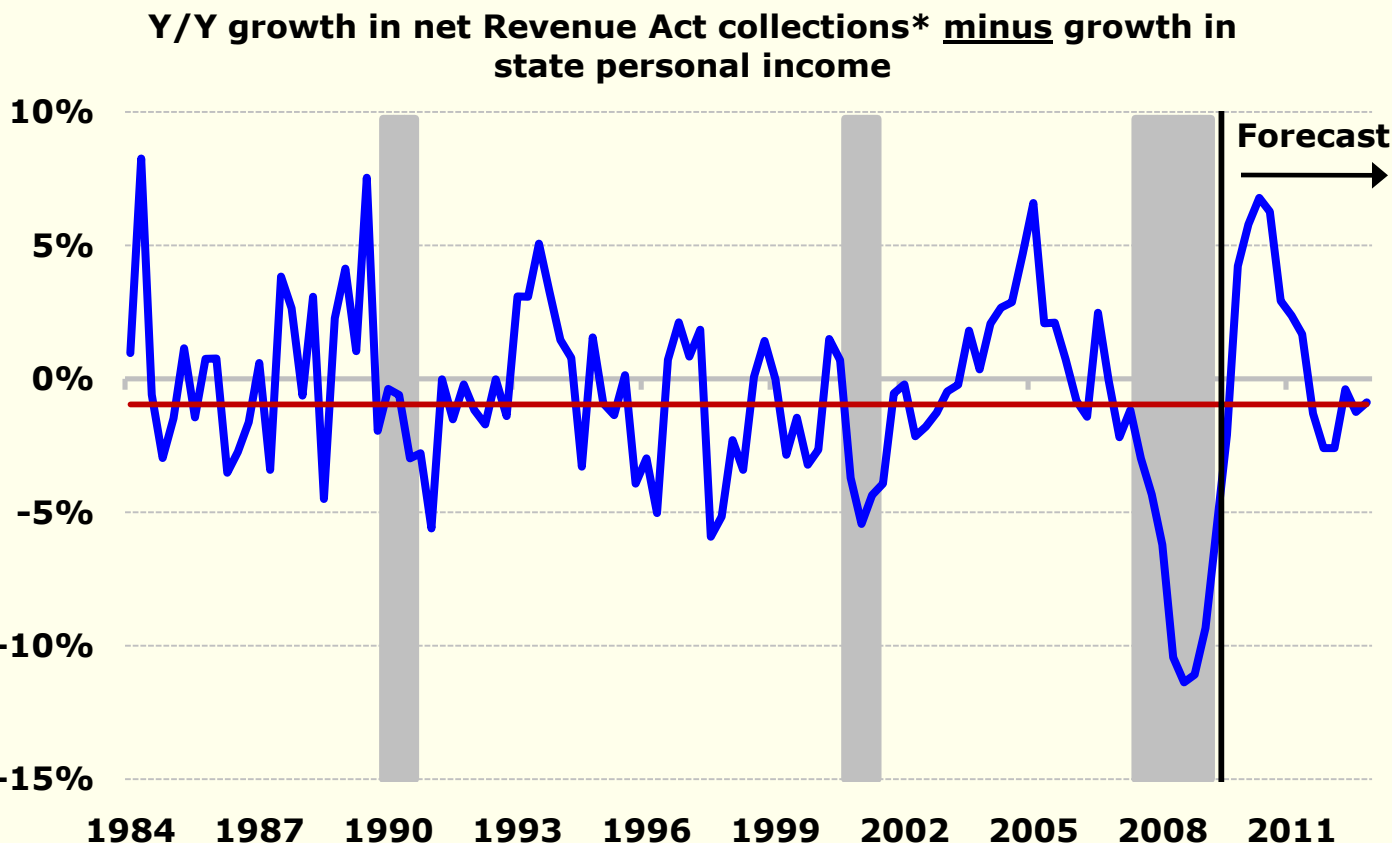


Source: ERFC February 2010 forecast; actual data through 2009Q3



Revenue growth relative to income is starting to turn around

The difference between the growth rate of Revenue Act collections and state personal income began to shrink in the second quarter of 2009.



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* Adjusted for new legislation, current definition of Revenue Act

Source: DOR and ERFC; data through 2009Q4 estimated

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Forecast changes: General Fund State, 2009-2011 Biennium

**November
Forecast:**

**\$28,843
million**

**USD
millions**

February '10 Forecast

	<u>Collection Experience</u>	<u>Non- economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$61	(\$150)	(\$52)	\$27,245	(\$141)
All other agencies	\$1	\$0	\$22	\$1,479	\$23
Total GF-S	\$61	(\$150)	(\$30)	\$28,725	(\$118)

* Detail may not add to total due to rounding

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Initial Forecast: General Fund State, 2011-2013 Biennium

**USD
millions**
USD Millions

	Forecast
Dept. of Revenue	\$30,658
All other agencies	\$1,566
Total GF-S	\$32,224

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* Detail may not add to total due to rounding

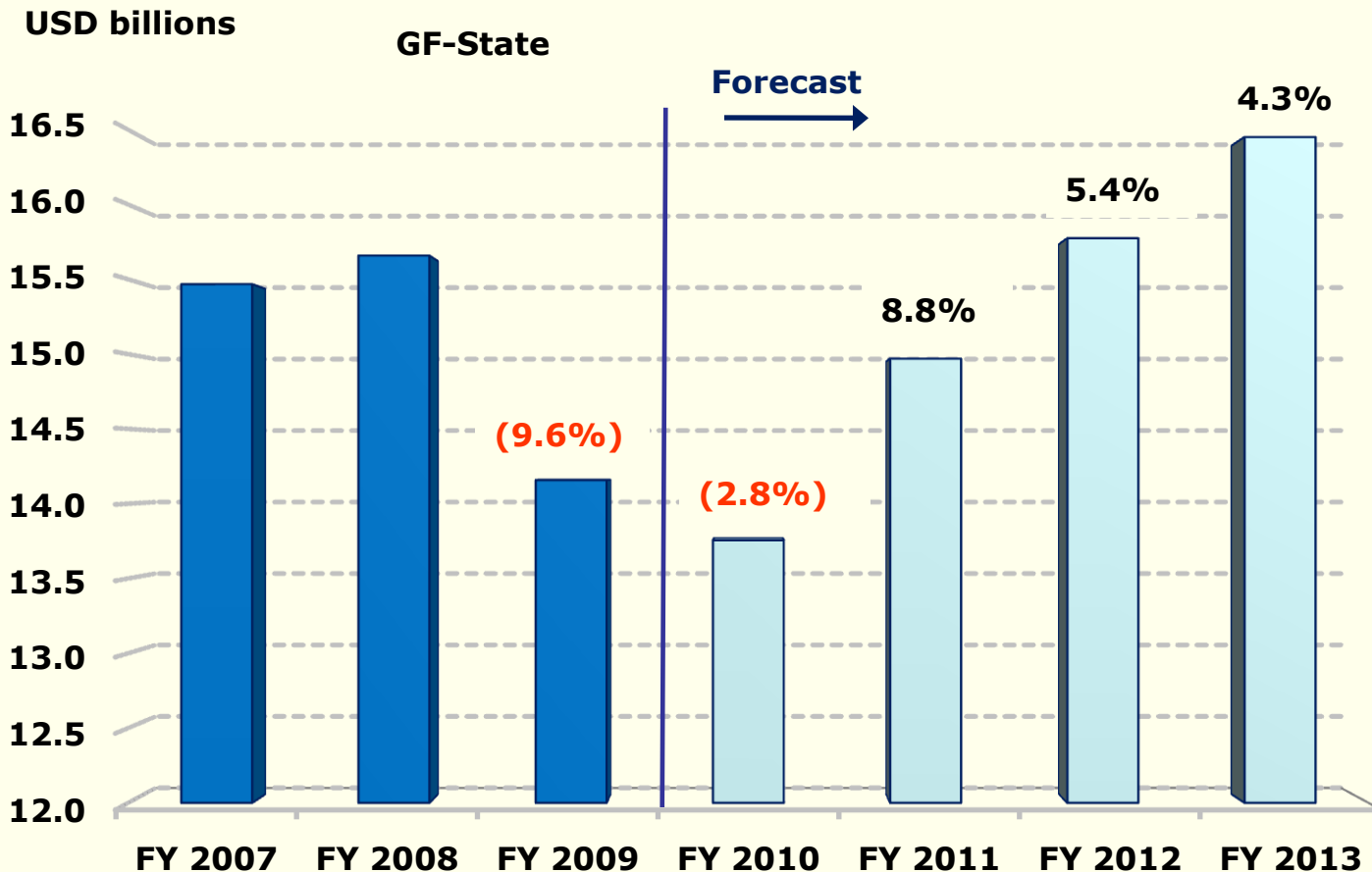


General Fund* forecast by fiscal year

* General Fund & Related Funds for FY 07, 08, and 09

General Fund – new definition, for FY 10-13

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Source: ERFC forecast, February 2010



Conclusion

Pluses

- Recovery in progress
- Employment likely to improve soon
- Car sales have stabilized
- Large banks able to extend credit

Minuses

- Problems at community banks
- Weak consumer confidence
- Slow recovery in construction

- Revenues have come in close to our November forecast, and are bumping along the bottom
- We expect 12.2% revenue growth in the 11-13 biennium compared to the current one



Questions



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Slide 32

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